

Dear Mr. _____:

As I mentioned briefly to you in our recent discussion, the Central Intelligence Agency would like to assist its employees to better prepare for their retirement. Our problem, such as it is, does not pertain to any inadequacy in our basic retirement program. All Agency employees are presently covered by either the Civil Service or the Central Intelligence Agency Retirement Systems - both of which are very excellent and comprehensive retirement programs. Nevertheless, we see the desirability of augmenting our total retirement package arising from two factors that pertain rather specially to this Agency. These are:

a. The Agency expects as a matter of policy that its employees will retire at age 60. This is 10 years younger than the mandatory retirement age normally prescribed for Government service and 5 to 6 years younger than the average retirement age voluntarily elected by Government employees in the Civil Service. Since years of service are a basic element in the computation of annuities, the inherent result of a lower than normal retirement age is generally smaller annuities for Agency employees.

b. A substantial portion of our employees serve in areas and under conditions where they have neither the time, information, nor facilities to conduct a personal investment program in equity securities.

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They are at a disadvantage in attempting to keep pace with inflation, to say nothing about participating in the economic growth of our national economy.

For these reasons, the Agency is contemplating the establishment of a voluntary employee savings and investment program that will qualify with the Internal Revenue Service as a pension trust exempt from income taxes. It is important to note that the Agency would not make any direct contribution to the pension trust other than to sponsor the plan and underwrite its costs of administration.

In brief, the Agency proposes to offer its employees a payroll savings plan through which they can voluntarily contribute to a qualified pension trust, the funds of which would be invested preponderantly in equity securities.

Our major concern and uncertainty is with the investment management of the pension trust funds. Options under consideration include:

- a. Investment management by the trustees with the advice of professional investment counselors; contractual custodianship of the portfolio;
- b. Investment management and custody of the trust funds by an appropriate institution(s) under contract or trust agreement;
- c. Automatic investment in one or several mutual funds selected and offered by the trustees as appropriate to the long range retirement purpose of the program with the participating employee electing the fund or funds of his choice.

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It is our tentative thinking that the latter of these three choices seems preferable for numerous reasons:

a. We are dealing with the voluntary, discretionary savings of individuals. These would be the monies that are available to them, if at all, over and above their basic retirement contributions and their short term emergency cash savings. We believe the investment concept offered for such funds must be highly attractive to the individual over and above the mere convenience of payroll savings and the tax shelter of a pension trust. The popularity of mutual funds today is very great. At the very least, the collective use of this investment medium would ensure the individual very low sales commissions.

b. By using selected mutual funds the individual can be given a choice of investment philosophies to be followed according to his needs or investment concepts. For example, he can be offered a choice of growth funds or income funds. Similarly, the individual could be given a choice of load funds or no load funds in the event he is opposed to load funds in principle.

c. The trustees of the pension trust would have minimal responsibility for the effective management of the pension trust holdings. Their major responsibility would be in the selection of

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mutual funds to be offered and professional competence is available in this field. Each participating individual would be responsible for selection of the fund or funds having the investment philosophy he wished to follow. In brief, responsibility is largely passed on to the voluntarily participating individual.

d. The payout options available through mutual funds are particularly favorable to the retirement purposes underlying our proposed program and they are effected without Agency administrative complexities. Either the individuals' shares are redeemed for lump sum payment or they are converted to mutual fund shares in the individuals' name. He can then elect the payout option of his choice and when desired.

It is within this conceptual framework for a voluntary retirement savings and investment plan operating as a qualified pension trust that we invite your suggestions, observations, and criticisms. Specifically, we would ask you:

a. Do you detect any significant weaknesses or deficiencies in our concept of a voluntary employee retirement savings and investment plan?

b. What form of investment management do you believe will be most effective and appropriate to a pension trust of this type?

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c. What, in your opinion, are the merits or demerits of using selected mutual funds as the investment media?

d. What will our problems be in selecting appropriate funds, monitoring, and assessing fund performance and shifting from original selections to others?

e. As a specific, we would like your views on the wisdom of using a single fund such as First Multifund to get diversification and broad coverage in the highly profitable and speculative growth segment of the mutual fund investment field.

As a Government agency, we are perhaps venturing into an area of employee relationships and retirement planning that is ahead of its day, an area that quite properly may be controversial to many. Until we have completed our exploratory thinking, we hope our tentative proposal will not become publicly disputative. We, therefore, ask you to treat this matter with discretion.